



SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72837; File No. SR-CME-2014-30)

August 13, 2014

Self-Regulatory Organizations; Chicago Mercantile Exchange Inc.; Notice of Filing of Proposed Rule Change Related to 2014 ISDA Definitions

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act” or “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 11, 2014, Chicago Mercantile Exchange Inc. (“CME”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change described in Items I, II and III below, which Items have been prepared primarily by CME. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The purpose of the proposed changes to CME’s clearing rules (the “CDS Product Rules”) is to (i) incorporate references to revised Credit Derivatives Definitions, as published by the International Swaps and Derivatives Association, Inc. (“ISDA”) on February 21, 2014 (the “2014 ISDA Definitions”), which are the successor definitions to the 2003 Credit Derivatives Definitions published by ISDA and as supplemented in 2009 (together, the “2003 ISDA Definitions”) and (ii) provide greater clarity with respect to the operation of certain provisions in the CDS Product Rules. CME is submitting the proposed amendments to the CDS Product Rules to incorporate references to the 2014 ISDA Definitions. The effectiveness of the Proposed CME

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Rules is intended to coincide with the date on which the credit derivatives market is expected to transition to the 2014 ISDA Definitions, which is currently anticipated to be September 22, 2014. As such, the Proposed CME Rules will become effective on September 22, 2014 or on such later date that CME otherwise determines. To the extent that the credit derivatives market does not transition to the 2014 ISDA Definitions, the Proposed CME Rules will not become effective.

The text of the proposed change is also available at the CME's website at <http://www.cmegroup.com>, at the principal office of CME, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, CME included statements concerning the purpose and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. CME has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

CME is submitting the proposed amendments to the CDS Product Rules to incorporate references to the 2014 ISDA Definitions to be effective by the proposed industry implementation date of September 22, 2014. It is CME's intention that, following the date on which the 2014 ISDA Definitions are implemented, the 2014 ISDA Definitions will apply to both (i) open positions cleared by CME (the "Converting Contracts") and (ii) new CDS contracts cleared by CME, consistent with market practice. In furtherance of this, CME proposes to make

conforming changes throughout the CDS Product Rules to refer to and/or conform to the 2014 ISDA Definitions. Additionally, CME proposes to add provisions to the CDS Product Rules to provide for the deemed amendment of all Converting Contracts on the date on which the 2014 ISDA Definitions are implemented.

a. Key 2014 ISDA Definition Changes

The 2014 ISDA Definitions make changes to a number of the standard terms with respect to CDS contracts when compared to the 2003 ISDA Definitions. Key changes include the introduction of new provisions relating to:

- (i) the settlement of credit events relating to financial and sovereign reference entities by delivery of assets other than bonds or loans that constitute deliverable obligations,
- (ii) transactions that would be impacted by a government bail-in of certain financial reference entities,
- (iii) standard reference obligations for certain more frequently traded reference entities, and
- (iv) other technical amendments and improvements.³

Of particular note in relation to the CME's proposed changes to the CDS Product Rules are the impact of the modifications to the 2014 ISDA Definitions relating to (i) the Successor provisions and (ii) the inclusion of Asset Package provisions. Notwithstanding the proposed changes to the CDS Product Rules relating to Asset Package provisions, none of the CDS

³ See ISDA Press Release describing the 2014 Definitions at <http://www2.isda.org/news/isda-publishes-isda-2014-credit-derivatives-definitions>.

products that CME currently clears are anticipated to be subject to and/or impacted by such changes.

b. Description of Proposed CME Rule Changes

The proposed changes will primarily provide for the conversion of existing contracts which are currently based on the 2003 ISDA Definitions into contracts based on the 2014 ISDA Definitions in conformance with the anticipated Protocol and allow for new cleared CDS products to incorporate the 2014 Definitions.

CME proposes to amend Chapters 800, 801, 802, 804, and 805 of the CDS Product Rules to align them with the 2014 ISDA Definitions. A concise description of the changes relating to the 2014 ISDA Definitions is set out below. Several provisions are being revised to include references to the 2014 ISDA Definitions and the DC Secretary, as appropriate. Non-substantive conforming changes and numbering changes have been made as well.

1. Chapter 800 (Credit Default Swaps)

Introductory language has been added to CME Rule 80001 (Definitions) to consolidate provisions relating to which definitions will govern Chapters 800-805. Corresponding deletions have been made to CME Rule 80101 (Scope of Chapter) and CME Rule 80501.A (Scope of Chapter). Other than the reference to the new 2014 ISDA Definitions, the CDS Product Rules are substantively unchanged by this modification.

CME Rule 80001 (Definitions), has been amended to include new definitions for, among other things, “2003 ISDA Credit Derivatives Definitions,” “2014 Credit Derivatives Definitions,” “2014 Definitions Transaction,” “Asset Package Cash Settlement Amount,” “Asset Package Notice,” “CME Successor Resolution Request Date,” “Converting Contract,” “Declaration of Successor,” and “Implementation Date” to conform and adapt the CDS Product Rules to the

2014 ISDA Definitions. In addition, the definition of “DC Rules” and “Credit Derivatives Definitions” have been deleted, as they will no longer be relevant following the implementation of the 2014 ISDA Definitions, and the definition of “Tax” has been amended and updated in accordance with certain changes to the 2014 ISDA Definitions. The definition of “Contract Elections” has been revised to correct a typo and correctly reference the “Initial Payment Payer” and the definition of “Eligible Contract Participant (“ECP”)” has been revised to include a specific reference to the relevant Commodity Exchange Act provision referred to therein. Chapter 800 (Credit Default Swaps) has also been revised to include certain other clarifying and conforming changes related to the incorporation of the 2014 ISDA Definitions.

2. Chapter 801 (CDS Contracts)

A clarifying change has been made to CME Rule 80102 (Eligible Contract Participant) to make clear the requirement that a CDS Participant be an ECP, pursuant to at least one of the applicable limbs of the definition provided in Section 1a(18) of the Commodity Exchange Act. In addition, a clarifying change has been made to CME Rule 80103.B (Acceptance of CDS by the Clearing House and Creation of CDS Contracts) to state that the potential for a separate agreement referred to in the second paragraph is subject to applicable law.

CME Rule 80104 (Clearing Self-Referencing CDS Contracts) has been revised to correctly reference the “North American Single Name CDS Contract.”

3. Chapter 802 (CDX Index Untranching CDS Contracts)

CME Chapter 802 (CDX Index Untranching CDS Contracts) has been revised to update the definition of “CDX Untranching Terms” to include a reference to the new “2014 Supplement,” the standard documentation for use in documenting standard CDX transactions incorporating the 2014 ISDA Definitions, anticipated to be published by Markit North America, Inc. on or about

September 22, 2014 to incorporate the 2014 ISDA Definitions. Additionally, provisions have been added to CME Rule 80201 (Scope of Chapter) to effect the amendment of all Converting Contracts on the date on which the 2014 ISDA Definitions are implemented, and authorizing the Clearing House to make such additional amendments or modifications to the 2014 Supplement as it deems reasonably necessary in order to give effect to the incorporation of the 2014 ISDA Credit Derivatives Definitions, as this document has yet to be published and may require certain amendments in the clearing context. Within CME Rule 80201 (Scope of Chapter), provisions relating to CDS Component Transactions have also been updated to clarify the already existing position that, notwithstanding that CDX Component Transactions will not be fungible with North American Single Name CDS Contracts, there may still be margin offsets between them, pursuant to the CDS Product Rules.

CME Rule 80202.F (Credit Event Backstop Date) has been revised to update the original amending provision relating to the definition of “Credit Event Backstop Date” in order to conform it to the changes in the 2014 ISDA Definitions relating to the definition of “Credit Event Backstop Date.” Additionally, changes have been made to remove provisions relating to Credit Events and/or Credit Event Resolution Request Dates occurring prior to June 20, 2009, as these are historic provisions within the definition that are no longer relevant.

CME Rule 80202.I (Declaration of Credit Events) has been revised to conform provisions relating to a Declaration of Credit Event to the updates in the 2014 ISDA Definitions given that concepts contained in CME Rule 80202.I (Declaration of Credit Events) are now captured by the newly defined terms of “Notice Delivery Period” and “Post Dismissal Additional Period” in the 2014 ISDA Definitions. Therefore these changes are entirely non-substantive.

CME Rule 80202.J (Event Determination Date) has been revised to update the original amending provision relating to the definition of “Event Determination Date” in order to conform it to the changes in the 2014 ISDA Definitions relating to the definition of “Event Determination Date.”

CME Rule 80202.K (Succession Event Backstop Date), CME Rule 80202.L (Declaration of Successor) and CME Rule 80202.M (CDX Index Versions) have been revised to conform the Successor provisions contained therein (including, in particular, the definition of “Succession Event Backstop Date” and “Declaration of Succession Event”) to the 2014 ISDA Definitions as they relate to Successor determinations (as more fully described above). “Succession Event Backstop Date” has been renamed “Successor Backstop Date” and “Declaration of Succession Event” has been renamed “Declaration of Successor” in accordance with the 2014 ISDA Definitions. Additionally, changes have been made to remove provisions relating to Succession Events and/or Succession Event Resolution Request Dates occurring prior to June 20, 2009, as these are historic provisions within the definition of Succession Event Backstop Date that are no longer relevant. Additionally, CME Rule 80202.M (CDX Index Versions) has also been updated to make reference to the determination of a Substitute Reference Obligation in respect of a Non-Standard Reference Obligation or publication of a revised SRO List in accordance with the 2014 ISDA Definitions.

A new CME Rule 80202.N (Standard Reference Obligation) has been added to conform the CDS Product Rules to the additions made in the 2014 ISDA Definitions relating to Standard Reference Obligations by providing that documentation evidencing any CDX Component Transaction which is a Converting Contract will be automatically deemed to be amended by insertion of “Standard Reference Obligation: Applicable” (to the extent that such provision is not

already applicable) and modifications relating to the introduction of “Standard Reference Obligation” have also been made to CME Rule 80203.A (Rules). The previous CME Rule 80202.N (De Minimis Cash Settlement) has been deleted in order to bring the CDS Product Rules in line with current CDS documentation and market practices with regard to de minimis cash settlement, as provided for in the CDX Untranchured Terms.

A new CME Rule 80202.O (Not Contingent Deliverable Obligation Characteristic) has been added to provide that CDX Untranchured Terms will be amended by deleting the words “Not Contingent” to address the removal of this concept in the 2014 ISDA Definitions.

A new CME Rule 80202.P (NOPS Cut-off Date) has been added to modify Section 8.10(b) of the 2014 ISDA Credit Derivatives Definitions to add a new proviso relating to decisions by the CDS Risk Committee (“CDS RC”) to resolve that a Credit Event has occurred with respect to a CDX Index Untranchured CDS Contract for which there is Publicly Available Information. This change is necessary in order to conform the application of the 2014 ISDA Definitions with respect to CDS contracts cleared by CME with the existence of the CDS RC.

CME Rule 80203.C (Industry Protocol) has been amended to remove outdated references to the March 2009 Protocol and the July 2009 Protocol.

CME also proposes various other clarifying and conforming changes throughout Chapter 802 (CDX Index Untranchured CDS Contracts) related to the incorporation of the 2014 ISDA Definitions.⁴

⁴ Staff has removed a reference to a proposed rule change in the Appendix to Chapter 802. Staff confirmed with CME on August 13, 2014 that CME does not intend to make that rule change as part of this rule filing.

4. Chapter 804 (CME CDS Risk Committee: Part A)

Chapter 804 (CME CDS Risk Committee: Part A) has been revised to (i) apply only in connection with 2014 Definitions Transactions and (ii) update the scope of the chapter generally to conform more accurately to the 2014 ISDA Definitions. While CME does not currently clear any CDS products to which the 2003 ISDA Definitions will apply following the implementation of the 2014 ISDA Definitions, a “Part A” distinction has been added to Chapter 804 in anticipation of the potential need to bifurcate Chapter 804 to allow for separate treatment of CDS products that may be cleared by CME in the future and to which the 2003 ISDA Definitions will apply.

CME Rule 80401 (Certain Functions and Authorities of the CDS RC) has been revised to update the scope of the definition of “Issue” in accordance with changes to the 2014 ISDA Definitions by (i) amending references and provisions relating to succession events and or determinations (as more fully described above), (ii) including reference to Non-Standard Reference Obligations and Eligible Information, (iii) removing references to Accreted Amount and Accreting Obligation, (iv) adding provisions relating to Asset Package Credit Events (as more fully described above), and (v) adding provisions relating to the determination of Reference Entity mergers with a Seller and other matters of contractual determination. In addition, modifications have been made in order to ensure alignment of the CDS Product Rules with the current market practices (as mandated by ISDA) to clarify the circumstances under which the CDS RC may make such determinations to avoid determinations that are inconsistent with DC determinations.

CME Rule 80402.A (Publicly Available Information) has been revised to align with the changes to the definition of “Publicly Available Information” in the 2014 ISDA Definitions.

Cross references in CME Rule 80404.A.E (Limitation of Liability and Waivers) have been updated to reflect changes in section numbering in the 2014 ISDA Definitions.

5. Chapter 805 (CME CDS Physical Settlement: Part A)

Chapter 805 (CME CDS Physical Settlement: Part A) has been revised to (i) apply only in connection with 2014 Definitions Transactions and (ii) update the scope of the chapter generally to conform more accurately to the 2014 ISDA Definitions. Specifically, amendments have been made in relation CME Rule 80502.A.C (Notices) and CME Rule 80503.A (Physical Settlement of Non DVP Obligations) to include provisions relating to Asset Package Delivery (as more fully described above). While CME does not currently clear any CDS products to which the 2003 ISDA Definitions will apply following the implementation of the 2014 ISDA Definitions, a “Part A” distinction has been added to Chapter 805 in anticipation of the potential need to bifurcate Chapter 805 to allow for separate treatment of CDS products that may be cleared by CME in the future and to which the 2003 ISDA Definitions will apply.

CME Rule 80502.A (Matched Pairs) has been updated to provide additional detail in relation to the matching process. The additions do not substantively alter the CDS Product Rules but rather, seek to provide greater clarity with respect to the current matching process.

Changes have been made to CME Rule 80507.A (Clearing House Guarantee of Matched Pair CDS Contracts) and CME Rule 80508.A (Failure to Perform Under Matched Pair CDS Contracts) to align the matching process with the general physical settlement provisions of CME as set out in Chapter 7 (Delivery Facilities and Procedures).

Additionally, Chapter 805 (CME CDS Physical Settlement: Part A) has been revised to include references, where appropriate, to the 2014 ISDA Definitions, Asset Package Delivery and the DC Secretary, and corresponding changes to provision numbering have been made.

2. Statutory Basis

CME believes the proposed changes to the CDS Product Rules are consistent with the requirements of the Exchange Act, including Section 17A of the Exchange Act⁵ and the applicable regulations thereunder. The proposed changes to the CDS Product Rules are designed to promote the prompt and accurate clearance and settlement of securities transactions and, to the extent applicable, derivatives agreements, contracts, and transactions, to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Exchange Act.⁶

The 2014 ISDA Definitions are intended to become effective on September 22, 2014 as part of an industry-wide comprehensive review of the entire ISDA Credit Derivatives Definitions, the first of its kind in over a decade. The proposed changes set out in the 2014 ISDA Definitions reflect market experience in recent years and are chiefly intended to address perceived concerns and/or shortcomings in relation to the 2003 ISDA Definitions. As CME plans to accept for clearing, contracts referencing the industry standard 2014 ISDA Definitions by the time of the planned industry-wide implementation on September 22, 2014 (and to convert certain existing contracts to the new definitions as of that date) the proposed changes to the CDS Product Rules will be necessary to achieve the clearing and/or conversion (as applicable) of such CDS contracts. CME believes that the proposed changes to the CDS Product Rules accurately conform the CDS

⁵ 15 U.S.C. 78q-1.

⁶ 15 U.S.C. 78q-1(b)(3)(F).

Product Rules to the 2014 ISDA Definitions. As such, the proposed changes to the CDS Product Rules are designed to promote the prompt and accurate clearance and settlement of securities transactions, derivatives agreements, contracts, and transactions within the meaning of Section 17A(b)(3)(F) of the Act.⁷

Additionally, CME facilitates physical settlement of CDS contracts. The proposed amendments to the CDS Product Rules would also facilitate the physical settlement process by amending the process to include references to the 2014 ISDA Definitions, Asset Package Delivery and the DC Secretary. In this regard, the additions do not substantively alter the CDS Product Rules but rather, seek to update the process to reflect references to the 2014 ISDA Definitions. These proposed amendments are designed to permit CME to continue to offer physical delivery and as such are designed to promote the prompt and accurate clearance and settlement of CDS and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible, and, in general, to protect investors and the public interest, consistent with Section 17A(b)(3)(F) of the Exchange Act.⁸

B. Self-Regulatory Organization's Statement on Burden on Competition

CME does not believe that the proposed changes to the CDS Product Rules will have any impact, or impose any burden, on competition. CME is submitting the proposed amendments to the CDS Product Rules to incorporate references to the 2014 ISDA Definitions and are intended to apply consistently across all clearing members. CME does not believe that any of the proposed changes to the CDS Product Rules would significantly affect the ability of clearing

⁷ Id.

⁸ Id.

members or other market participants to continue to clear CDS, or otherwise limit market participants' choices for selecting clearing services. For the foregoing reasons, the proposed changes to the CDS Product Rules do not, in CME's view, impose any unnecessary or inappropriate burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

Written comments relating to the CDS Product Rules have not been solicited, or received. CME will notify the Commission of any written comments received by CME.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>), or

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-CME-2014-30 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC, 20549-1090.

All submissions should refer to File Number SR-CME-2014-30. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of CME and on CME's website at <http://www.cmegroup.com/market-regulation/rule-filings.html>.

All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CME-2014-30 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2014-19581 Filed
08/18/2014 at 8:45 am;
Publication Date: 08/19/2014]

⁹ 17 CFR 200.30-3(a)(12).